AN OVERVIEW OF ECONOMIC, SOCIAL, AND DEMOGRAPHIC TRENDS AFFECTING THE U.S. LABOR MARKET

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Globalization is only one factor influencing the low-skilled labor market. In order to examine policies for assisting low-skill workers, we must take a close look at the market for their services.

VII. The Low-Skilled Labor Market

The low-skilled labor market has changed markedly in the last decades. The returns to education and other measures of skill grew rapidly between the early 1970s and the early 1990s; the returns to skill have stabilized since then. The rising return to education has induced two important supply responses. First, young people have enrolled in college and completed college degrees at much higher rates. Second, young unskilled men, particularly black men, have decreased their labor force participation and their hours of work.

While inequality has increased among education groups, it has declined between men and women and blacks and whites. While evidence of labor market discrimination still exists, much of the remaining gap in black and white men's wages can be attributed to their level of skills before they enter the labor market.

Welfare reform and an expanding economy have pushed 1 million women on TANF into the labor market; the vast majority of former TANF recipients are low-skilled and have entered low-wage jobs. In addition, many unskilled immigrants have joined the labor force in several large American cities.

Despite rising levels of formal education, many adults lack the basic math and reading skills, work habits, and interpersonal skills that most employers require. Increasingly, those individuals have become disenfranchised from the market economy.

The future prospects of unskilled workers will depend largely on the education system and on the willingness of federal and state governments to provide income supplementation in sensible ways to low-skill workers and their families. Policymakers should focus on preparing young adults to enter the labor market. Reducing the flow into the low-skilled market both improves the job opportunities of young, better-trained workers and lowers the overall supply of low-skilled workers, which makes low-skilled adults more scarce. Clearly, the K-12 education system needs reform if more high school graduates are to obtain the basic math, reading, and communication skills required by most employers. Given that government training programs have limited success in increasing basic skills, public policy for adults older than age 25 should focus on making work pay through wage subsidies or decreases in employment taxes.

The Supply of Low-Skilled Workers: Educational Attainment

One measure of skill is educational attainment. By that measure, the supply of low-skilled workers has declined since the early 1970s. Typically, analysts categorize high school dropouts and individuals with a high school diploma and no college as low-skilled or medium-skilled workers.

The most rapid increase in educational attainment in the past 25 years has come from individuals who attended college but did not complete a degree. In 1971, 44 percent of 25- to 29-year-olds had completed some college; in 1995, 62 percent had. College graduation rates also rose over the same period, from 22 percent to 28 percent. High school graduation rates, which were already quite high, increased modestly from 83 to 85 percent of 18- to 24-year olds.

Levels of formal schooling differ widely among ethnic groups. Blacks and Hispanics lag well behind whites in their levels of college attendance and graduation. In 1995, 65 percent of whites, 52

percent of blacks, and 50 percent of Hispanics had completed some college. In the same year, 28 percent of whites, 18 percent of blacks, and 16 percent of Hispanics had completed a four-year college degree.

The black high school graduation rate is only slightly lower than the white rate; in 1995, 85 percent of black youths and 90 percent of white youths had graduated from high school. The Hispanic high school graduation rate, 63 percent, was much lower than the black or white rates.

Trends in Other Measures of Skill

Formal education is an imperfect measure of skill because individuals with the same level of formal schooling show vastly different levels of skill on standardized tests (Kilburn and Lillard, 1997).

Only one time series measure of the skill level of the adult population exists. The General Social Survey has administered a 10-question vocabulary quiz to its respondents since the early 1970s. Judged on the basis of GSS scores, the vocabulary capabilities of the adult population have declined over time. While this trend portrays a pessimistic view, the short vocabulary test provides only limited information on one dimension of skill.

Time series data have been collected on high school students' performance on two standardized tests, the SAT and National Assessment of Education Progress (NAEP). Average student performance on both tests has changed little over the last 20 years. The average SAT math score dipped slightly in the mid-1970s, but has returned to its early 1970s levels. The average math score was 509 in 1972 and 511 in 1997. Average SAT verbal scores declined from 530 in 1972 to 509 in 1976, but have remained roughly constant since. In 1997, the average SAT verbal score was 505 (College Board, 1997).

The NAEP has been administered to a random sample of 17-year-olds enrolled in high school since 1970. Average NAEP science and math scores declined slightly in the late 1970s and early 1980s, but have since returned to their early 1970s levels. Reading scores have remained roughly constant since 1971, but writing scores have declined slightly, but not significantly, since 1984 (National Center for Education Statistics, 1997).

Because the population of students taking the SAT and NAEP has become more ethnically and economically diverse, the lack of a trend in test scores can be interpreted as a sign of modest progress. High schools have succeeded in holding achievement constant while educating a more diverse group of students. When they complete high school, youths have roughly the same skills they did 20 years ago. But because college attendance is rising, the average youth today likely enters the labor market with more skills than youths did in the 1970s.

The 1992 National Adult Literacy Survey provides a snapshot of the math and reading skills of the U.S. adult population in 1992. The survey found that a substantial minority of adults have limited basic skills. The survey found that 21 percent of the adult population had only rudimentary reading, writing, and math skills. Such individuals could not locate an intersection on a street map or total the costs of a purchase from an order form. Another 25 percent of the population had the second-lowest level of reading, writing, and math skills; they could not calculate a 10 percent discount from a bill using a calculator or use a bus schedule (National Center for Education Statistics, 1998). Individuals at the lowest two levels of literacy do not have the skills required by most employers; 66 percent of all jobs require more than the lowest two levels of literacy (Levenson, Reardon, and Schmidt, 1999).

The Demand for Skills

Most analysts agree that today's employers demand more skills than they did in the past. Several factors have contributed to the rising demand for skills in the labor market: technological and organizational change, trade, deregulation of key industries, and the decline of unions. Three types of empirical evidence support the hypothesis that the demand for skills has risen: estimates of the returns to skill, time series data on the content of a representative sample of jobs, and evidence from case studies of individual firms or industries.

A large literature has documented that the returns to education have increased at the same time that the supply of college-educated workers has increased. The data are consistent with an upward shift in the demand for skill. Since 1973, the average hourly earnings for workers with a high school degree or less have declined in real terms; male high school dropouts' wages declined by 2 percent, and male high school graduates' wages declined by 1.2 percent. At the same time, male college graduates' wages have remained roughly constant in real terms, and men with graduate degrees experienced a 0.7-percentage-point increase in hourly earnings (Burtless, 1998a).

There is also evidence consistent with an increase in the returns to cognitive skills. Murnane, Willett, and Levy (1995) compare the returns to mathematics, reading, and vocabulary skills across two cohorts of young workers. The first cohort graduated from high school in 1972 and the second cohort graduated in 1980. They find that the returns to cognitive skills were higher when the 1980 cohort entered the labor market than when the 1972 cohort did.

Individual-level data on workers and their jobs provide direct evidence that workers use more skills than they did in the past. Using representative samples of workers, Howell and Wolff (1991) show

that between 1960 and 1985 the changing occupational and industrial structure of the economy has led to a rising demand for cognitive and interpersonal skills and a decline in the demand for motor skills. Using data from 94 job titles in 93 manufacturing establishments, Cappelli (1993) finds that manufacturing occupations substantially upgraded their skill requirements between 1978 and 1986. Clerical jobs showed an even split between jobs that were upskilled and those that were deskilled; the jobs that were deskilled appear to be associated with the development of new office equipment. As noted above, in the 1994 National Employer Survey of establishments, three-fourths of employers reported the skills required to perform production and support jobs had increased over the prior three years.

Most case studies of particular firms or industries have shown an increase in the skills used by most workers. However, the differences between industries, occupations, or firms within a particular industry are substantial.

Evidence from a cross-sectional survey of firms in four large metropolitan areas suggests there is a substantial gap between the skills that employers require and those that disadvantaged workers possess. Among jobs that did not require a college education, 70 percent required that workers deal with customers, 61 percent required that workers read or write paragraphs, 65 percent required arithmetic, and 51 percent required the use of computers. In addition, 71 percent required a high school diploma and 61 percent required specific vocational experience. Holzer (1998) finds that 42 percent of black and Hispanic high school dropouts, 24 percent of white high school dropouts, and 21 percent of female welfare recipients would face very limited job availability in their cities.

Declining Male-Female and Black-White Wage Gap

While wage inequality has grown among education groups, wage differentials have narrowed between men and women as well as between whites and blacks. Overall, the male-female wage gap declined from 37.1 percent in 1984 to 23.8 percent in 1995. Over the same period, the wage differential between white and black men declined from 26.7 percent to 18.0 percent, and the wage differential between white and black women declined from 8.7 percent to 6.0 percent (Lerman, 1997a).

Much of the remaining difference in hourly earnings for white and black men can be explained by differences in their level of skills before they enter the labor market (Neal and Johnson, 1997). U.S. schools tend to be segregated by race, and the schools that black students attend are worse quality than those that white students attend. In addition, black and other minority students face discrimination by their teachers in terms of placement into academic courses. Black and other minority students who do well on standardized tests are much less likely to be placed in academic high school courses than white students with comparable test scores. Students placed in a non-academic track have less access to college prep math, science, and English courses that teach the skills demanded by most employers and most colleges.

Changes in Labor Force Participation of Unskilled Men and Women

In response to the declining real wages, unskilled men have witnessed a marked decline in labor force participation in the last 20 years. Between 1982-1983 and 1987-1989, the labor force participation rate of men in the first quintile of the wage distribution declined 4 percentage points, while the labor force participation rate declined 1 percentage point for men in the second quintile of the wage distribution (Juhn, Murphy, and Topel, 1991). The remainder of the male wage distribution had virtually

no change in their labor force participation rates. Conditional on working, high school dropouts and high school graduate men are working fewer hours than they did in the past (Coleman and Pencavel, 1994).

The fact that many unskilled men have withdrawn from the labor force may have affected the composition of families, although causation may run from weak family structure to reduced labor force activity. In any event, marriage rates are much lower among labor force non-participants than among other men. Only 46.7 percent of men who are long-term non-participants in the labor force live with their wives. In contrast, 86.1 percent of men who work full-year live with their wives.

While unskilled men have decreased their labor force participation, unskilled women have gradually increased their labor force participation since the early 1970s. Within the last four years, one group of low-skilled women—unmarried mothers—has raised dramatically their participation in the labor market and the trend is likely to continue. As noted above in the work and family section, the increase in single mothers' labor market participation was due in part to a 1996 federal law that placed a lifetime limit on the number of years a family could receive AFDC benefits.

Welfare reform will play an important role in the future of the unskilled labor market. Many analysts think that the influx of welfare mothers into the labor market will crowd out men and immigrants. Others argue that the labor market will be able to absorb welfare mothers by creating new jobs; studies show that large groups of unskilled immigrants have been fully absorbed by the labor market with minimal displacement of native-born workers.

Within the last four to six years, low-skilled workers, including high school dropouts, have raised their employment levels substantially. In part, the gains for low-skilled workers are the result of an economic expansion that has brought unemployment rates to 4.5 percent, a 30-year low. Another likely

reason is that the number of dropouts entering the labor force has been entirely offset by high school dropouts leaving the market as older, less-educated workers retire. As noted above, of the 11.7 million net increase in employment of workers 25 and over, over 90 percent have attended college and over 50 percent have BA degrees. With fewer competitors, more low-skilled workers have managed to find jobs. In the coming decade, the demographic shifts will be less favorable for low-skilled workers.